

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Detroit Library Cooperative	County Wayne
Fiscal Year End 9/30/2007	Opinion Date 3/20/2008	Date Audit Report Submitted to State 3/28/2008	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	N/A	
Certified Public Accountant (Firm Name) Abraham & Gaffney, P.C.		Telephone Number 517-351-6836	
Street Address 3511 Coolidge Road, Suite 100		City East Lansing	State MI
Authorizing CPA Signature 		Printed Name Aaron M. Stevens, CPA	Zip 48823
		License Number 1101024055	

**Detroit Library Cooperative
Detroit, Michigan**

FINANCIAL STATEMENTS

September 30, 2007

Detroit Library Cooperative

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INDEPENDENT AUDITOR'S REPORT

Members of the Board of Trustees
Detroit Library Cooperative
Detroit, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of the Detroit Library Cooperative as of and for the year ended September 30, 2007, which collectively comprise the Cooperative's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Detroit Library Cooperative's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Detroit Library Cooperative as of September 30, 2007, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information, as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

March 20, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2007

As management of the Detroit Library Cooperative, we offer this discussion and analysis of the activities of the Cooperative for the year ended September 30, 2007.

The discussion and analysis of financial performance provides an overview of the Cooperative's financial activities for the fiscal year ended September 30, 2007. Please read it in conjunction with the Cooperative's financial statements which will immediately follow this section.

Financial Highlights

The following represent the most significant financial highlights for the year ending September 30, 2007:

- The assets of the Cooperative exceeded its liabilities at the end of the fiscal year by \$800,456 (net assets) on the full accrual basis of accounting. This represents an increase of \$451,733 as a result of current year activity at the government-wide level.
- At the close of the fiscal year, the General Fund reported a fund balance of \$677,819.
- The Detroit Associated Libraries System, the predecessor organization to the Cooperative, transferred their remaining equity of \$337,682 to the Cooperative.

Using this Annual Report

This annual report consists of three parts: *Management's Discussion and Analysis* (this section), the *basic financial statements*, and the *required supplementary information*. The basic financial statements include information that provide information about the activities of the Detroit Library Cooperative as a whole at a government-wide level and present a longer-term view of the Cooperative's finances.

The basic financial statements also include the fund financial statements which present a short-term view of the Cooperative's finances. They tell us how resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the operations of the Cooperative in more detail than the government-wide financial statements by providing information about the Cooperative's General Fund.

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The financial statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements.

Government-wide Statements. The *statement of net assets* presents information on all of the Cooperative's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Cooperative is improving or deteriorating.

The *statement of activities* presents information showing how the Cooperative's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing related to cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in past or future fiscal periods (for instance, depreciation expense associated with capital assets).

The government-wide financial statements can be found on pages 1 and 2 of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2007

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Cooperative, like other units of state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The activity of the Cooperative is accounted for in a governmental fund (General Fund).

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Cooperative maintains one governmental fund (the General Fund). Information is presented in the General Fund balance sheet and in the General Fund statement of revenues, expenditures, and changes in fund balance for the Cooperative. The General Fund is a major fund for financial reporting purposes as defined by GASB Statement No. 34.

The basic governmental fund financial statements can be found on pages 3 and 5 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 7 through 12 of this report.

Government-wide Financial Analysis

The following table shows, in a condensed comparative format, the net assets as of September 30, 2007 and 2006.

	<u>2007</u>	<u>2006</u>
Assets		
Current assets	\$ 815,519	\$ 432,325
Capital assets, net	<u>122,637</u>	<u>33,809</u>
Total assets	938,156	466,134
Liabilities		
Current liabilities	137,700	117,411
Net Assets		
Invested in capital assets	122,637	33,809
Unrestricted	<u>677,819</u>	<u>314,914</u>
Total net assets	<u>\$ 800,456</u>	<u>\$ 348,723</u>

Detroit Library Cooperative

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2007

During the fiscal year ended September 30, 2007, the Cooperative's total net assets increased by \$451,733 to \$800,456. Net assets invested in capital assets increased by \$88,828 and unrestricted net assets increased by \$362,905 during the fiscal year.

The following table shows the changes in net assets in a comparative format for the years ending September 30, 2007 and September 30, 2006, respectively.

	<u>2007</u>	<u>2006</u>
Revenues		
General revenue:		
State Aid	\$ 382,584	\$ 420,541
Investment earnings	30,859	7,200
Other	<u>8,280</u>	<u>155,007</u>
Total revenues	421,723	582,748
Program Expenses		
Cooperative services/operations	<u>307,672</u>	<u>234,025</u>
Revenues over expenses	114,051	348,723
Special item	<u>337,682</u>	<u>-</u>
Change in Net Assets	<u>\$ 451,733</u>	<u>\$ 348,723</u>

The Cooperative's revenues totaled \$421,723 with the greatest revenue being the state aid received by the Cooperative. State aid represents approximately 91 percent of total governmental revenue. The Detroit Associated Libraries System, the predecessor organization to the Cooperative, transferred their remaining equity of \$337,682 to the Cooperative. This transfer is reported as a special item as it represents a significant transaction within the control of management that is either unusual in nature or infrequent in occurrence.

The Cooperative incurred expenses of \$307,672 during the year. As a special purpose government, all of the governmental expenses incurred are associated with the Cooperative service function.

The Cooperative's Fund

At the end of the current fiscal year, the fund balance of \$677,819 for the General Fund reflects an increase of \$362,905 from the previous year. This increase was largely attributed to the equity transferred from the Detroit Associated Libraries System to the Detroit Public Library in the amount of \$337,682.

General Fund Budgetary Highlights

The Cooperative adopts an annual budget for the General Fund. A budgetary comparison statement has been provided on page 13 as required supplementary information to demonstrate compliance with this budget.

The Cooperative's amended budget shows no budgeted usage of fund balance and a total revenue budget of \$413,240. Actual revenues for the current year totaled \$421,723, which is \$8,483 higher than budgeted. This favorable difference is mainly due to other revenue being \$8,280 higher than budgeted. The total expenditure budget was also \$413,240. Actual expenditures for the year totaled \$396,500, which was under the amended budget by \$16,740. Therefore, the General Fund had an excess of revenues over expenditures of \$25,223.

Detroit Library Cooperative

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2007

Capital Assets and Debt Administration

At the end of the fiscal year, the Cooperative had \$122,637 invested in furniture and equipment (net of accumulated depreciation). Additions included construction in progress of \$93,687 that will be added to furniture and equipment once the digital exhibits system has been completed. Additional information on the Cooperative's capital assets can be found in Note C to the financial statements.

No debt was issued during the fiscal year. The Cooperative had no bonded indebtedness at September 30, 2007.

Economic Factors and Next Year's Budget

The following factors were considered in preparing the Cooperative's budget for the 2007-2008 fiscal year:

- Based on legislative action, we anticipated a 20% reduction in direct State Aid revenue for fiscal year 2008. This resulted in corresponding cuts in programs and promotions for the Main Library and branches as well as general advertising.
- We are currently in the process of analyzing expenditure amounts to more clearly reflect their true cost in administrative overhead while keeping the overall costs to the Detroit Public Library at a static level.

Contacting the Cooperative's Management

This financial report is intended to provide a general overview of the Cooperative's finances, comply with finance-related laws and regulations, and demonstrate the Cooperative's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Cooperative's Financial Department at 5201 Woodward Avenue, Detroit, Michigan 48202.

BASIC FINANCIAL STATEMENTS

Detroit Library Cooperative
STATEMENT OF NET ASSETS
September 30, 2007

	<u>Governmental Activities</u>
ASSETS	
Current assets	
Cash	\$ 810,933
Prepays	<u>4,586</u>
Total current assets	815,519
Noncurrent assets	
Capital assets not being depreciated	93,687
Capital assets, net of accumulated depreciation	<u>28,950</u>
Total noncurrent assets	<u>122,637</u>
TOTAL ASSETS	938,156
LIABILITIES	
Current liabilities	
Accrued liabilities	43
Due to other governmental units	<u>137,657</u>
TOTAL LIABILITIES	<u>137,700</u>
NET ASSETS	
Invested in capital assets	122,637
Unrestricted	<u>677,819</u>
TOTAL NET ASSETS	<u><u>\$ 800,456</u></u>

See accompanying notes to financial statements.

Detroit Library Cooperative
STATEMENT OF ACTIVITIES
Year Ended September 30, 2007

<u>Functions/Programs</u>	<u>Net (Expenses) Revenues and Change in Net Assets</u>
Governmental activities:	
Recreation and cultural	\$ (307,672)
General revenues:	
State aid	382,584
Investment earnings	30,859
Other	8,280
<i>Special item</i> - Transfer from Detroit Associated Libraries System	<u>337,682</u>
TOTAL GENERAL REVENUES	<u>759,405</u>
CHANGE IN NET ASSETS	451,733
Net assets, beginning of year	<u>348,723</u>
Net assets, end of year	<u><u>\$ 800,456</u></u>

See accompanying notes to financial statements.

Detroit Library Cooperative
GOVERNMENTAL FUND BALANCE SHEET
September 30, 2007

	<u>General</u>
ASSETS	
Cash	\$ 810,933
Prepays	<u>4,586</u>
TOTAL ASSETS	<u>\$ 815,519</u>
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accrued liabilities	\$ 43
Due to other governmental unit	<u>137,657</u>
TOTAL LIABILITIES	137,700
FUND BALANCE	
Reserved for prepaids	4,586
Unreserved	
Designated for subsequent years' expenditures	153,034
Undesignated	<u>520,199</u>
TOTAL FUND BALANCE	<u>677,819</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 815,519</u>

See accompanying notes to financial statements.

Detroit Library Cooperative

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

September 30, 2007

Fund balance - governmental fund **\$ 677,819**

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 127,698	
Accumulated depreciation is	<u>(5,061)</u>	
Capital assets, net		<u>122,637</u>
Net assets of governmental activities		<u>\$ 800,456</u>

See accompanying notes to financial statements.

Detroit Library Cooperative

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
GOVERNMENTAL FUND

Year Ended September 30, 2007

	<u>General</u>
REVENUES	
Intergovernmental - State aid	\$ 382,584
Interest	30,859
Other	<u>8,280</u>
TOTAL REVENUES	421,723
EXPENDITURES	
Recreation and cultural	
Administrative services	11,377
Programming - main and branches	129,284
Speakers program support	13,666
Audit/Legal	5,247
Media expenditures	11,111
Bank charges	33
Delivery charges	123,500
Miscellaneous	<u>8,595</u>
Total recreation and cultural	302,813
Capital outlay	<u>93,687</u>
TOTAL EXPENDITURES	<u>396,500</u>
EXCESS OF REVENUES OVER EXPENDITURES	25,223
SPECIAL ITEM	
Residual equity transfer from Detroit Associated Libraries System	<u>337,682</u>
NET CHANGE IN FUND BALANCE	362,905
Fund balance, beginning of year	<u>314,914</u>
Fund balance, end of year	<u><u>\$ 677,819</u></u>

See accompanying notes to financial statements.

Detroit Library Cooperative

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE OF THE GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES

Year Ended September 30, 2007

Net change in fund balance - governmental fund **\$ 362,905**

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 93,687	
Depreciation expense	<u>(4,859)</u>	
Excess of capital outlay over depreciation expense		<u>88,828</u>

Change in net assets of governmental activities **\$ 451,733**

See accompanying notes to financial statements.

Detroit Library Cooperative

NOTES TO FINANCIAL STATEMENTS

September 30, 2007

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Detroit Library Cooperative (the "Cooperative") conform to generally accepted accounting principles as applied to governmental units. The following is a summary of the significant policies.

The Detroit Library Cooperative, a public library cooperative at the Detroit Public Library was established under the authority of the State Aid to Public Libraries Act 89 of 1977. It was organized to provide specific services to member libraries.

The Cooperative is governed by a Board of Trustees composed of the members of the Detroit Library Commission. The Detroit Public Library is the initial, and currently the only, member of the Detroit Library Cooperative. Membership in the Detroit Library Cooperative is open to any local library meeting the requirements as set forth by the Cooperative and in Public Act 89 of 1977.

The purpose of the Detroit Library Cooperative is to (1) extend and improve access to library services and materials for each child, youth, and adult of the Cooperative region appropriate to his or her informational and recreational needs, (2) improve and strengthen resources and services of member libraries, and (3) encourage continued growth and development of library services to the citizens of the State of Michigan.

1. Reporting Entity

The Cooperative Board of Trustees has governance responsibilities over all activities related to the Detroit Library Cooperative. The Board receives funding from state government sources and must comply with the requirements of these funding sources. However, the Cooperative is not included in any other governmental "reporting entity" as defined by the Governmental Accounting Standards Board since the Cooperative Board members, who are appointed, have decision-making authority, the power to designate management, the responsibility to significantly influence operations, and primary accountability for fiscal matters.

In accordance with U.S. generally accepted accounting principles, these financial statements present all financial activities of the Detroit Library Cooperative. There are no component units to be included in these financial statements.

2. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the Cooperative as a whole.

The statement of activities presents the direct functional expenses of the Cooperative and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State aid payments and other general revenues and shows how governmental functions are either self-financing or supported by the general revenues of the Library.

FUND FINANCIAL STATEMENTS

The Cooperative has one fund, the General Fund, which is the primary operating fund. The General Fund is presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of this fund present increases (i.e., revenues) and decreases (i.e., expenditures) in net current assets. The General Fund is considered to be a major fund for financial reporting purposes.

Detroit Library Cooperative
NOTES TO FINANCIAL STATEMENTS
September 30, 2007

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

3. Measurement Focus

The government-wide financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

The governmental fund (General Fund) is presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

4. Basis of Accounting

Basis of accounting refers to the timing under which transactions are recognized for financial reporting purposes. The Government-wide financial statements are prepared using the accrual basis of accounting. Governmental fund financial statements use the modified accrual basis of accounting.

Under the accrual basis of accounting, revenue is recorded in the period in which it is earned and expenses are recorded when incurred, regardless of the timing of related cash flows. Revenues for grants, entitlements, and donations are recognized when all eligibility requirements imposed by the provider have been met.

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within sixty days of year-end. Expenditures generally are recorded when a liability is incurred, except for principal and interest on long-term debt which are recorded when due.

5. Budgets and Budgetary Accounting

The General Fund budget was prepared on a basis consistent with the basis used to reflect actual results. The annual budget is prepared by the Cooperative's management and adopted by the Cooperative Board; subsequent amendments are approved by the Cooperative Board. During the current year, the budget was amended in a legally permissible manner.

The budget has been prepared in accordance with generally accepted accounting principles. The budget has been adopted on an activity basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of actual results of operations to the budget as adopted by the Cooperative Board is included as required supplementary information to the financial statements.

The Cooperative employs the following procedures in establishing the budgetary data reflected in the financial statements.

- a. The Cooperative prepares the proposed operating budget for the fiscal year commencing October 1. The operating budget includes proposed expenditures and resources to finance them.
- b. Prior to incurring significant expenditures, the budget is legally enacted through Cooperative Board action.
- c. The budget is legally adopted at the activity level and maintained at the account level.
- d. Budgeted amounts are reported as originally adopted or amended by the Cooperative Board during the year.

Detroit Library Cooperative
NOTES TO FINANCIAL STATEMENTS
September 30, 2007

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

6. Cash

Cash consists of a money market checking account.

7. Prepays

Prepaid expenditures/expenses are for payments made by the Cooperative in the current year to provide services occurring in the subsequent fiscal year.

8. Capital Assets

Capital assets include furniture and equipment and are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements. The Detroit Library Cooperative follows the Detroit Public Library's capital asset policy which includes all items with an initial individual cost of \$5,000 or more and an estimated useful life of more than one year.

Capital assets are not recorded in the governmental fund. Instead, capital acquisition and construction in progress are reflected as expenditures in the governmental fund and the related capital assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Furniture	7-10 years
Equipment	3-5 years

9. Special Item

Special items are significant transactions or other events within the control of management that are either unusual in nature or infrequent in occurrence. The Cooperative's financial statements include a special item resulting from the residual equity transfer from the Detroit Associated Libraries System, which was the predecessor organization to the Detroit Library Cooperative.

10. Comparative Data

Comparative data for the prior year has not been presented in the accompanying financial statements since the inclusion of comparative data would make the statements unduly complex and difficult to read.

NOTE B: CASH

In accordance with Michigan Compiled Laws, the Detroit Library Cooperative is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.

NOTES TO FINANCIAL STATEMENTS

September 30, 2007

NOTE B: CASH - CONTINUED

2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office located in this State under the laws of the State or the United States, but only if the bank, savings and loan association, or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or federal agency obligations repurchase agreements.
5. Bankers acceptances of United States banks.
6. Mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities, issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

Deposits of the Cooperative are at federally insured banks located in the State of Michigan with all accounts maintained in the name of the Cooperative. As of September 30, 2007, the Cooperative accounts were insured by the FDIC for \$100,000 and the amount of \$718,461 was uninsured and uncollateralized.

Due to significantly higher cash flow at certain periods during the year, the amount the Cooperative held as cash increased significantly. As a result, the amount of the uninsured and uncollateralized cash and was substantially higher at these peak periods than at year-end.

Credit Risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). The Cooperative has not adopted a policy that indicates how the Cooperative will minimize credit risk if/when the Cooperative has investments that are subject to this type of risk.

Interest rate risk

The Cooperative has not adopted a policy that indicates how the Cooperative will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by limiting the weighted average maturity of its investment portfolio to less than a given period of time, if/when the Cooperative has investments that are subject to this type of risk.

Detroit Library Cooperative
NOTES TO FINANCIAL STATEMENTS
September 30, 2007

NOTE B: CASH - CONTINUED

Concentration of credit risk

The Cooperative has not adopted a policy that indicates how the Cooperative will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Cooperative's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized, if/when the Cooperative has investments that are subject to this type of risk.

Custodial credit risk

The Cooperative has not adopted a policy that indicates how the Cooperative will minimize custodial credit risk, which is the risk that in the event of the failure of the counterparty, the Cooperative will not be able to recover the value of its investments of collateral securities that are in possession of an outside party, if/when the Cooperative has investments that are subject to this type of risk.

NOTE C: CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2007, was as follows:

	Balance <u>Oct. 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>Sept. 30, 2007</u>
Governmental Activities				
Assets not being depreciated				
Construction in progress	\$ -	\$ 93,687	\$ -	\$ 93,687
Assets being depreciated				
Furniture and equipment	34,011	-	-	34,011
Less: accumulated depreciation	(202)	(4,859)	-	(5,061)
Total assets being depreciated	<u>33,809</u>	<u>(4,859)</u>	<u>-0-</u>	<u>28,950</u>
Total capital assets	<u>\$ 33,809</u>	<u>\$ 88,828</u>	<u>\$ -0-</u>	<u>\$ 122,637</u>

NOTE D: FUND BALANCE RESERVES AND DESIGNATIONS

Reserved fund balance is used to earmark a portion of fund balance to indicate that it is not appropriate for expenditure or has been legally segregated for a specific future use. Designated fund equity indicates that portion of fund balance or net assets that the Cooperative has set aside for specific purposes. These reserves and designations are recorded at the fund level to indicate management plans for these funds.

The following is the fund balance designation as of September 30, 2007:

Designated for subsequent years' expenditures	\$ <u>153,034</u>
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The following is the fund balance reserve as of September 30, 2007:

Reserved for prepaids	\$ <u>4,586</u>
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Detroit Library Cooperative
NOTES TO FINANCIAL STATEMENTS
September 30, 2007

NOTE E: RELATED PARTY TRANSACTIONS

The Detroit Library Cooperative is governed by a Board of Trustees composed of the members of the Detroit Library Commission. The Detroit Library Commission is the governing body of the Detroit Public Library. The Detroit Public Library is the initial, and currently the only, member of the Detroit Library Cooperative.

The Detroit Public Library provides administrative, management, and delivery services to the Detroit Library Cooperative for which the Cooperative is charged fees. For the year ended September 30, 2007, the Cooperative's expenditures include payments to the Detroit Public Library for \$7,092 for the reimbursement of salaries and wages (i.e., labor charges); \$4,286 for the reimbursement of fringe benefits; and \$123,500 for delivery charges. As of September 30, 2007, the amount owed to the Detroit Public Library was \$137,657.

NOTE F: RISK MANAGEMENT

The Cooperative is exposed to various risks of loss related to property loss, torts, error and omissions. The Detroit Library Commission, acting in part on behalf of the Cooperative, has purchased commercial insurance for protection against such claims. There were no significant reductions in insurance coverage during the year.

NOTE G: ECONOMIC DEPENDENCY

Approximately 91% of revenue received in 2007 was received through state aid. Any reductions in this revenue could have a significant impact on the Detroit Library Cooperative's operations.

REQUIRED SUPPLEMENTARY INFORMATION

Detroit Library Cooperative

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended September 30, 2007

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Intergovernmental - State aid	\$ 420,000	\$ 384,123	\$ 382,584	\$ (1,539)
Interest	10,200	29,117	30,859	1,742
Other	-	-	8,280	8,280
TOTAL REVENUES	430,200	413,240	421,723	8,483
EXPENDITURES				
Recreation and cultural				
Administrative services	20,720	20,720	11,377	9,343
Programming - main and branches	309,480	290,520	129,284	161,236
Speakers program support	80,000	80,000	13,666	66,334
Audit/Legal	20,000	20,000	5,247	14,753
Media expenditures	-	2,000	11,111	(9,111)
Bank charges	-	-	33	(33)
Delivery charges	-	-	123,500	(123,500)
Miscellaneous	-	-	8,595	(8,595)
Total recreation and cultural	430,200	413,240	302,813	110,427
Capital outlay	-	-	93,687	(93,687)
TOTAL EXPENDITURES	430,200	413,240	396,500	16,740
EXCESS OF REVENUES OVER EXPENDITURES	-0-	-0-	25,223	25,223
SPECIAL ITEM				
Residual equity transfer from Detroit Associated Libraries System	-	-	337,682	337,682
NET CHANGE IN FUND BALANCE	-0-	-0-	362,905	362,905
Fund balance, beginning of year	314,914	314,914	314,914	-0-
Fund balance, end of year	<u>\$ 314,914</u>	<u>\$ 314,914</u>	<u>\$ 677,819</u>	<u>\$ 362,905</u>

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA
Alan D. Panter, CPA



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF THE FINANCIAL STATEMENTS**

To the Members of the Board of Trustees
Detroit Library Cooperative
Detroit, Michigan

We have audited the financial statements of the governmental activities and the major fund of the Detroit Library Cooperative (the "Cooperative") as of and for the year ended September 30, 2007, which collectively comprise the Cooperative's basic financial statements, and have issued our report thereon dated March 20, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Cooperative's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Cooperative's internal control. Accordingly, we do not express an opinion on the effectiveness of the Cooperative's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal controls. We consider the following deficiencies to be significant deficiencies in internal control over financial reporting:

PREPARATION OF FINANCIAL STATEMENTS

Effective for all audits of fiscal years ending December 31, 2006 and thereafter, Statement on Auditing Standards No. 112 (SAS 112) titled *Communicating Internal Control Related Matters Identified in an Audit*, requires us to communicate when a client requires assistance in the preparation of financial statements and the related footnotes that are required in accordance with U.S. generally accepted accounting principles (GAAP). Based on our discussions with management and audit fieldwork performed for the current year, the Cooperative has the ability to perform monthly internal accounting functions and provide timely reports as requested by the Board.

Based on our review of the prior year audited financial statements, the Cooperative does not appear to have the personnel with qualifications and training necessary to generate financial statements (including the government-wide financial statements) and related note disclosures in accordance with GAAP. Instead, the Cooperative has relied on external auditors to prepare the GAAP basis financial statements.

Although preliminary financial statements prepared on both the modified accrual basis and full accrual basis of accounting were provided to the auditors in the prior year, the audited financial statements for the year ended September 30, 2006, were not prepared in accordance with GAAP as applied to governmental entities. While we understand that the Cooperative did not prepare the report on the prior year's financial statements, management was required to accept responsibility for the information contained within such a report. We are communicating these circumstances as required by professional standards. Although we do not see a need for any change in the process related to the preparation of the financial statements (i.e., relying on the auditors' expertise), we recommend management take appropriate steps to be able to accept responsibility for the Cooperative's financial statements.

FRAUD RISK MANAGEMENT PROGRAM

During discussions with management, we noted that the Cooperative has not developed or implemented a fraud risk management program. Management is responsible for the detection and prevention of fraud, misappropriations, and other inappropriate conduct. Fraud is defined as the intentional, false representation or concealment of a material fact for the purpose of inducing another to act upon it to his or her injury. Each member of the management team should be familiar with the types of improprieties that might occur within his or her area of responsibility, and be alert for any indication of irregularity.

Due to the Cooperative not developing a fraud risk assessment and monitoring program, it is unable to assess the Cooperative's vulnerabilities to fraudulent activities and whether any of those exposures could result in material misstatement of the financial statements.

We recommend that the Cooperative's management develop and the Cooperative's Board of Trustees formally implement a fraud risk management program that is appropriate for the size and complexity of the entity. Such a fraud risk management program may involve actively searching for fraudulent transactions through the use of techniques such as data mining, but should also include informing management and employees as to the nature of fraud and actions expected to be taken if fraud is suspected. This would include publishing a definition of fraud, a statement that fraud will not be tolerated within the entity, and instructions for reporting fraud within the chain of command.

A *material weakness* is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Cooperative's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies, and accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We consider the following significant deficiencies to be material weaknesses, as defined above.

MATERIAL JOURNAL ENTRIES

Material journal entries were proposed as part of our audit process. One journal entry proposed to reclassify the residual cash received from the Detroit Associated Libraries from fund equity to a special item. While we agree that the receipt should not be accounted for as part of the Cooperative's operating revenue, we believe that since the receipt was collected in the fiscal year ended September 30, 2007, and therefore should be considered a special item in the current year as opposed to a prior period adjustment.

The other proposed journal entry was a reclassification from prepaid expenditures to capital outlay in the fund financial statements. The amounts originally recorded as prepaid expenditures are related to the digital exhibits system approved by the Board of Trustees at their June 19, 2007, meeting. While we agree that the amount recorded is appropriately classified as an asset of the Cooperative on the full accrual financial statements, we believe the more accurate classification would be to consider the disbursements to be construction in progress on the full accrual financial statements and capital outlay expenditures in the fund financial statements.

Because we proposed material journal entries as part of the audit process, and because auditors cannot be part of the government's internal controls, a control deficiency exists for the Cooperative. SAS 112 emphasizes that management is responsible for establishing, maintaining, and monitoring internal controls, and for the fair presentation in the financial statements of financial position, results of operations, and cash flow (when applicable), including the notes to financial statements, in conformity with U.S. generally accepted accounting principles.

Responsibility for the financial statements of the Cooperative rests with the Cooperative's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal accounting records), and (2) reporting government-wide and fund financial statements, including related notes disclosures (i.e., external financial reporting). The auditor cannot be part of internal controls.

We recommend management take steps to ensure that material journal entries and corrections are recorded prior to the performance of audit fieldwork in the future.

SEGREGATION OF DUTIES

During our consideration and assessment of fraud risk and through discussions with management, we noted that the Cooperative does not have sufficient segregation of duties in its accounting structure. Specifically, we noted that for the year ended September 30, 2007, the Business and Financial Operations Manager entered all receipts and journal entries in the general ledger. In addition, this individual also directly received the bank statement, prepared the monthly bank reconciliation, and is one of the five authorized signers for check disbursements. Reasonable segregation of duties is essential to sound internal control and necessary to prevent and detect errors and fraud.

Duties and responsibilities for handling receipts and disbursements should be arranged and separated so that an employee does not perform more than one of the following functions:

- a. Opening the mail.
- b. Receipting payments.
- c. Balancing receipts to the accounting records.
- d. Performing the bank reconciliation.
- e. Signing the checks.

While this is a common occurrence in many organizations due to the limited number of employees, the Board of Trustees should realize that a greater risk in safeguarding assets exists if duties and responsibilities are not appropriately arranged and separated. In smaller entities, where the number of employees is limited and duties cannot be adequately separated, the Cooperative's management must provide a greater review and supervision of employee functions and procedures. While greater review and supervision would serve as a mitigating control, it would not necessarily directly address the lack of segregation of duties described in this situation.

We recommend that management review various areas of operation and consider additional segregation of duties. If duties cannot be adequately segregated due to the limited number of employees, we recommend management provide greater review and supervision of employee functions and procedures.

SUPPORTING DOCUMENTATION

During our testing of the Cooperative's disbursements process, we noted that documentation (i.e., original invoices) supporting two (2) of the ten (10) transactions selected could not be located.

We recommend that management review current procedures related to the retention of supporting documentation and make necessary modifications to ensure that supporting documentation exists for all disbursements.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Cooperative's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed the following noncompliance and other matters required to be reported:

INVESTMENT POLICY

During discussions with management, we noted that the Cooperative has not adopted their own investment policy. Public Act 20 of 1943, as amended, requires governments to adopt an investment policy not more than 180 days after the end of their first fiscal year that, at a minimum, includes all of the following:

- a. A statement of the purpose, scope, and objectives of the policy, including safety, diversification, liquidity, and return on investment.
- b. A delegation of authority to make investments.
- c. A list of authorized investment instruments. If the policy authorizes an investment in mutual funds, it shall indicate whether the authorization is limited to securities whose intention is to maintain a net asset value of \$1.00 per share or also includes securities whose net asset value per share may fluctuate on a periodic basis.
- d. A statement concerning safekeeping, custody, and prudence.

Deposit resources represent significant assets of the Cooperative's governmental fund. These resources are necessary for the delivery of the Cooperative's services and programs. In addition to the Public Act requiring an investment policy, GASB Statement No. 40 is designed to inform financial statement users about deposit and investment risks that could affect the Cooperative's ability to provide services and meet its obligations as they become due. In the absence of policies that address such risks, GASB Statement No. 40 requires the Cooperative to disclose that no such policies exist.

We recommend the Cooperative adopt an investment policy as required by Public Act 20 of 1943, as amended. We also recommend that the investment policy address the types of deposit and investment risk as described in GASB Statement No. 40.

CAPITAL ASSET MANAGEMENT POLICY

During the course of our audit, we noted that the Cooperative currently follows the Detroit Public Library's capital asset management policy. As a separate governmental entity from the Detroit Public Library, the Detroit Library Cooperative should maintain its own policies and procedures.

We recommend that management develop and the Board of Trustees adopt a policy for the acquisition and disposal of capital assets. The policy should specify the dollar threshold to be used for asset capitalization and that the disposal of capital assets requires formal approval by the Board. The policy should also indicate estimated useful lives for each major classification of capital assets. Adoption of the capital asset management policy should be documented in the minutes of the Board of Trustees meetings.

BASIS FOR RATES USED IN ALLOCATIONS

During the course of our audit, we noted that the Detroit Public Library provides administrative, management, and delivery services to the Detroit Library Cooperative for which the Cooperative is charged fees. For the year ended September 30, 2007, the Cooperative's expenditures include payments to the Detroit Public Library for \$7,092 for the reimbursement of salaries and wages (i.e., labor charges); \$4,286 for the reimbursement of fringe benefits; and \$123,500 for delivery charges.

The reimbursement for salaries and related benefits is calculated as a percentage of the Detroit Public Library Director's actual salaries and related benefits. The delivery charges are calculated as a flat fee per day of operation per branch of the Detroit Public Library. While the rates used (i.e., the percentage of the Director's salary and fringes and the per delivery charge) in these calculations were approved by the Board of Trustees, the basis for the rates being used is not documented.

We recommend that management perform periodic time studies and track actual costs of the delivery charges to determine if the rates being applied in the allocations are reasonable and justified.

This report is intended solely for the information and use of management, the members of the Board of Trustees, and others within the Cooperative and is not intended to be and should not be used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

March 20, 2008